

Department of Legislative Services
 Maryland General Assembly
 2003 Session

FISCAL AND POLICY NOTE

House Bill 3 (Delegate Trueschler)
 Ways and Means

Income Tax - Credit for Classroom Supplies Purchased by Teachers

This bill provides an income tax credit to specified teachers in elementary and secondary schools equal to 100% of expenses paid during the taxable year for classroom supplies for the benefit of students. The credit applies to expenses that are not otherwise reimbursed and are used by students in the classroom or by the eligible teacher to prepare for or during classroom teaching. The amount of the credit cannot exceed \$300 or the income tax liability for the taxable year. Any unused amount of the credit may not be carried forward to any other taxable year.

The bill takes effect July 1, 2003 and applies to all taxable years beginning after December 31, 2002.

Fiscal Summary

State Effect: General fund revenue decrease of approximately \$18.7 million in FY 2004. Future year decreases reflect a 1% annual increase in the number of teachers.

(\$ in millions)	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
GF Revenue	(\$18.7)	(\$19.7)	(\$19.9)	(\$20.1)	(\$20.3)
Expenditure	\$0	\$0	\$0	\$0	\$0
Net Effect	(\$18.7)	(\$19.7)	(\$19.9)	(\$20.1)	(\$20.3)

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: Local government revenues would increase by approximately \$463,100 in FY 2004 only. Future year revenues would not be affected.

Small Business Effect: Minimal.

Analysis

Current Law: No income tax credit of this type exists under the Maryland income tax. However, for tax years 2002 and 2003, the Internal Revenue Code allows teachers to claim a \$250 deduction for out-of-pocket expenses for classroom supplies.

State Fiscal Effect: According to information provided by the Maryland State Department of Education, there are approximately 65,000 full-time public and nonpublic elementary and secondary teachers in Maryland. A study by the National Education Association indicates that the average teacher spends \$406 per year for unreimbursed classroom supplies. It is therefore assumed that all eligible teachers would be able to claim the maximum \$300 income tax credit.

Assuming that all teachers claim the full \$300 credit, general fund revenues would decrease by approximately \$19.5 million in tax year 2003. However, the bill also requires an addition modification equal to the amount of the credit claimed to the extent that these expenses are excluded from federal adjusted gross income, which would have the effect of reducing the value of the credit claimed. Because the federal \$250 “above-the-line” deduction is only allowed for tax year 2002 and 2003, this addition modification would reduce the general fund revenue loss by approximately \$771,875 in tax year 2003. While in future years classroom expenses would be allowable as a miscellaneous federal deduction, it is assumed that most teachers would be unable to claim the deduction as their expenses would be insufficient based on their adjusted gross income.

Based on these factors, it is estimated that general fund revenue would decrease by approximately \$18.7 million in fiscal 2004. It is assumed that general fund revenues would decrease in the fiscal year following the tax year in which the tax return was filed. In other words, credits claimed for tax year 2003 would affect revenues in fiscal 2004. Future year revenue decreases reflect a 1% annual increase in the number of teachers based on U.S. Census Bureau estimates.

The Office of the Comptroller advises that it would incur a one-time expenditure of \$47,600 in fiscal 2004 to make changes to the SMART processing systems and to add the credit to the income tax return. The Department of Legislative Services advises that since forms and instructions are updated annually, the cost of these changes could be absorbed within existing resources.

Local Fiscal Effect: Local government revenues would increase by approximately \$463,100 in fiscal 2004 only as a result of the required addition modification.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Comptroller's Office (Bureau of Revenue Estimates), Maryland Association of Boards of Education, Maryland State Department of Education, Department of Legislative Services

Fiscal Note History: First Reader - January 24, 2003
ncs/jr

Analysis by: Michael Sanelli

Direct Inquiries to:
(410) 946-5510
(301) 970-5510